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THE **Kroger** CO. / ANNUAL REPORT



Kroger

ANNUAL REPORT

1959

The general offices of the company were moved to their new rental quarters on December 21, 1959. Kroger occupies several floors in this modern structure bearing the name of the company.



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Officers

JOSEPH B. HALL
President

CLIFFORD E. ARMSTRONG
Vice President

JACOB E. DAVIS
Vice President

WILBUR R. KORENGEL
Vice President

JOHN M. LOCKHART
Vice President

ROBERT MONTGOMERY
Vice President

THOMAS T. OYLER
Vice President

CARL J. REITH
Vice President

FRANK S. VAMOS
Vice President

FRANK M. GRIEME
Treasurer

JOHN L. STRUBBE
Secretary

FRANK J. ANDRESS
Assistant Treasurer

CARL W. BRIESKE
Assistant Treasurer

CHARLES L. ARNOLD
Assistant Secretary

GEORGE A. LEONARD
Assistant Secretary

SYDNEY G. WILSHIRE
Assistant Secretary

Directors

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President, Ohio University

JACOB E. DAVIS
Vice President

FRED C. FOY
Chairman of the Board and
President, Koppers Company, Inc.

HARRY J. GILLIGAN
Proprietor, John J. Gilligan & Son

JOSEPH B. HALL
President

CARL M. JACOBS
Partner, Frost & Jacobs

A. T. KEARNEY
Partner, A. T. Kearney & Company

JOHN M. LOCKHART
Vice President

THOMAS T. OYLER
Vice President

DAVID L. RIKE
President, The Rike-Kumler Company

STANLEY M. ROWE
Chairman of the Board,
Brotherton Corporation

T. SPENCER SHORE
President, The Eagle-Picher Company

EDWARD D. SMITH
President,
The First National Bank of Atlanta

Directors Emeritus

WALTER A. DRAPER
CHARLES W. DUPUIS
CHARLES M. ROBERTSON

TRANSFER AGENTS The Provident Bank,
Cincinnati
Bankers Trust Company,
New York

REGISTRARS The Central Trust Company,
Cincinnati
Chemical Bank New York Trust Company,
New York

Highlights

Kroger

1959

1958

INCREASE

SALES

\$1,911,902,467

\$1,776,175,147

8%

NET INCOME

\$ 25,516,920

\$ 21,629,930

18%

NET WORTH

\$ 173,461,086

\$ 158,573,593

9%

CAPITAL EXPENDITURES

\$ 32,997,052

\$ 48,775,194

— 32%

STORES

1,393

1,428

— 2%

NEW STORES OPENED

86

100

— 14%

President's Letter

To Our Shareowners:

Sales and earnings again reached new highs in 1959.

Record Earnings

Net income of \$25,516,920 was an increase of 18% over 1958. Net income was equal to \$2.06 per share on the 12,410,000 shares outstanding at the year end. This compares with 1958 net income of \$1.76 per share on the 12,319,317 shares outstanding on December 27, 1958.

Sales Reach New High

Sales of \$1,911,902,467 (53 weeks) exceeded 1958 (52 weeks) by 8%. For the comparable 52 weeks, our sales gain was 6%. Food prices were declining throughout the year. 1959 was the tenth consecutive year in which sales increased over the preceding year.

Average sales per store (on a 52-week basis) were \$1,357,885 in 1959, an increase of \$99,971 over 1958.

Dividend Rate Increased

The quarterly dividend rate on the common stock was again increased in 1959. The fourth quarter dividend was $27\frac{1}{2}$ cents per share—an annual rate of \$1.10 per share. This compares with the previous annual dividend rate of 90 cents. In the past two years Kroger's annual dividend rate has increased from $66\frac{2}{3}$ cents per share to \$1.10 per share, an increase of 65%.

This was Kroger's fifty-eighth year of uninterrupted dividends. Every dividend paid during this period was fully earned in the year paid.

Financial Position Strong

Cash at the year end was \$52,865,583, about the same as at the end of 1958. In addition, the company owned \$6,784,970 of United States Government securities, all readily convertible into cash. Net working capital of \$93,854,922 exceeded working capital at the end of 1958 by 8%. Year-end inventories of \$118,862,668 were equivalent to 6.3% of sales as compared to 6.6% a year ago. Both percentages are computed on a 52-week year.

Capital expenditures for all purposes were \$32,997,052 in 1959 as compared to \$48,775,194 in 1958.

Depreciation and amortization were \$14,575,283 as compared to \$17,047,484 in 1958. The 1959 charges conform to those used for federal income tax purposes. During the year, federal income tax returns for 1956, 1957 and 1958 were examined and the life of some amortizable assets extended, thereby reducing the annual amortization charge. Certain assets determined to be non-depreciable were written off in their entirety. An addition was made to the Employees' Benefit (Retirement) Fund. These adjustments offset each other so that they had no effect on 1959 after tax reported income.



Evanston, Illinois Store

Stores Program

Eighty-six new stores were opened in 1959, 121 smaller stores closed and 35 stores remodeled.

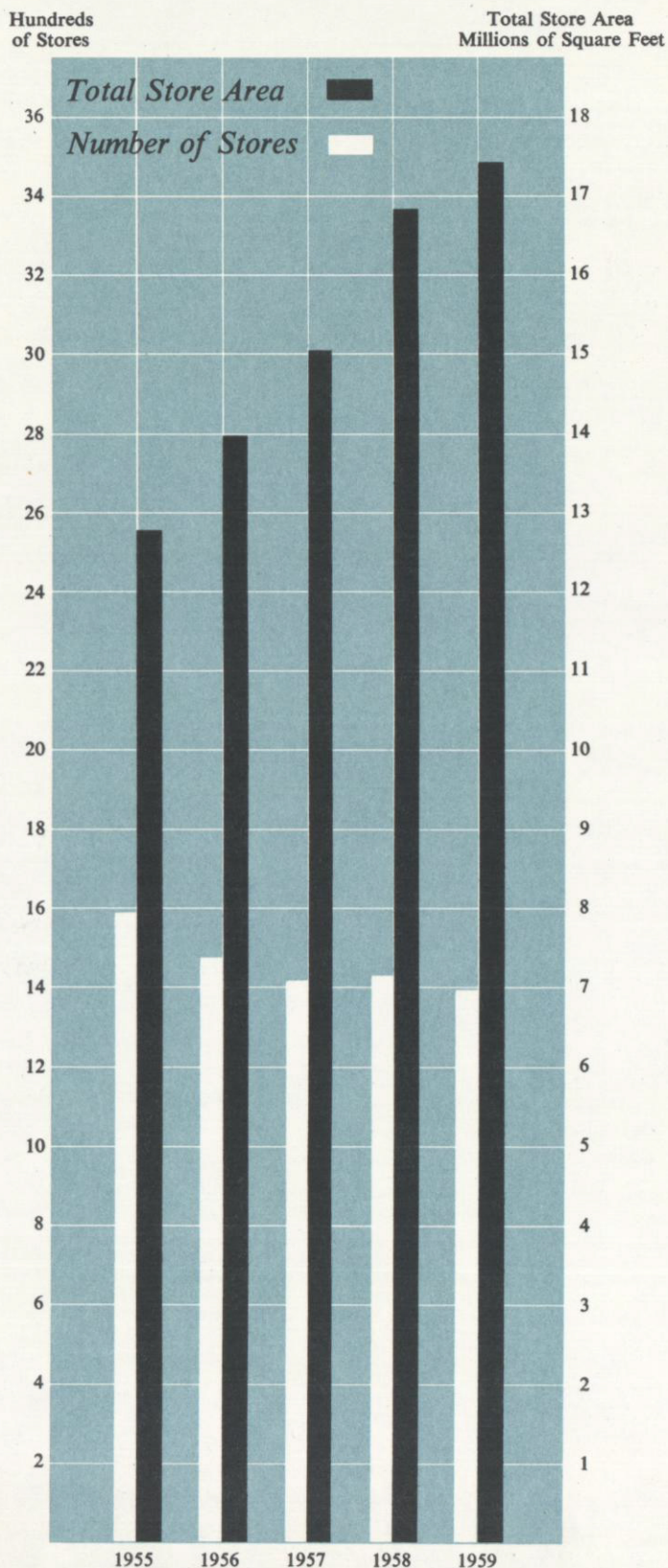
Almost all of the company's stores are leased, with less than 14% of these leases having 10 years or more to run. It has been found advantageous to the company in several instances to purchase land and construct our own stores. Our strong cash position enables us to do this at a time when store development generally is being hampered by tight money. It is expected that a greater number of our new stores will be company financed in the year ahead.

Capital expenditures for stores and related equipment in 1959 were \$15,784,599.

Distribution Centers

The modernization program for distribution centers is virtually completed. New centers were opened in 1959 at Cleveland, Indianapolis, Memphis, Peoria, Roanoke and St. Louis. The Atlanta center was enlarged during the year. Construction is nearly completed at the distribution center in Dallas, Texas, and occupancy is scheduled for early spring of 1960. The company owns all of these distribution centers except Cleveland and Indianapolis, which are occupied under long-term leases. Most other distribution and manufacturing centers are leased.

Capital expenditures for distribution centers were \$8,567,151 in 1959.



Manufacturing

The transition into new, larger bakeries continued in 1959. The first of the new regional plants was completed in Detroit. The Cleveland and Indianapolis facilities are scheduled for completion in 1960.

The new egg grading plant at Wabash, Indiana, was opened last spring. The new dairy in Indianapolis and the instant milk facilities at Marion have been completed. Capital expenditures for manufacturing facilities were \$4,569,093 in 1959.

Transportation

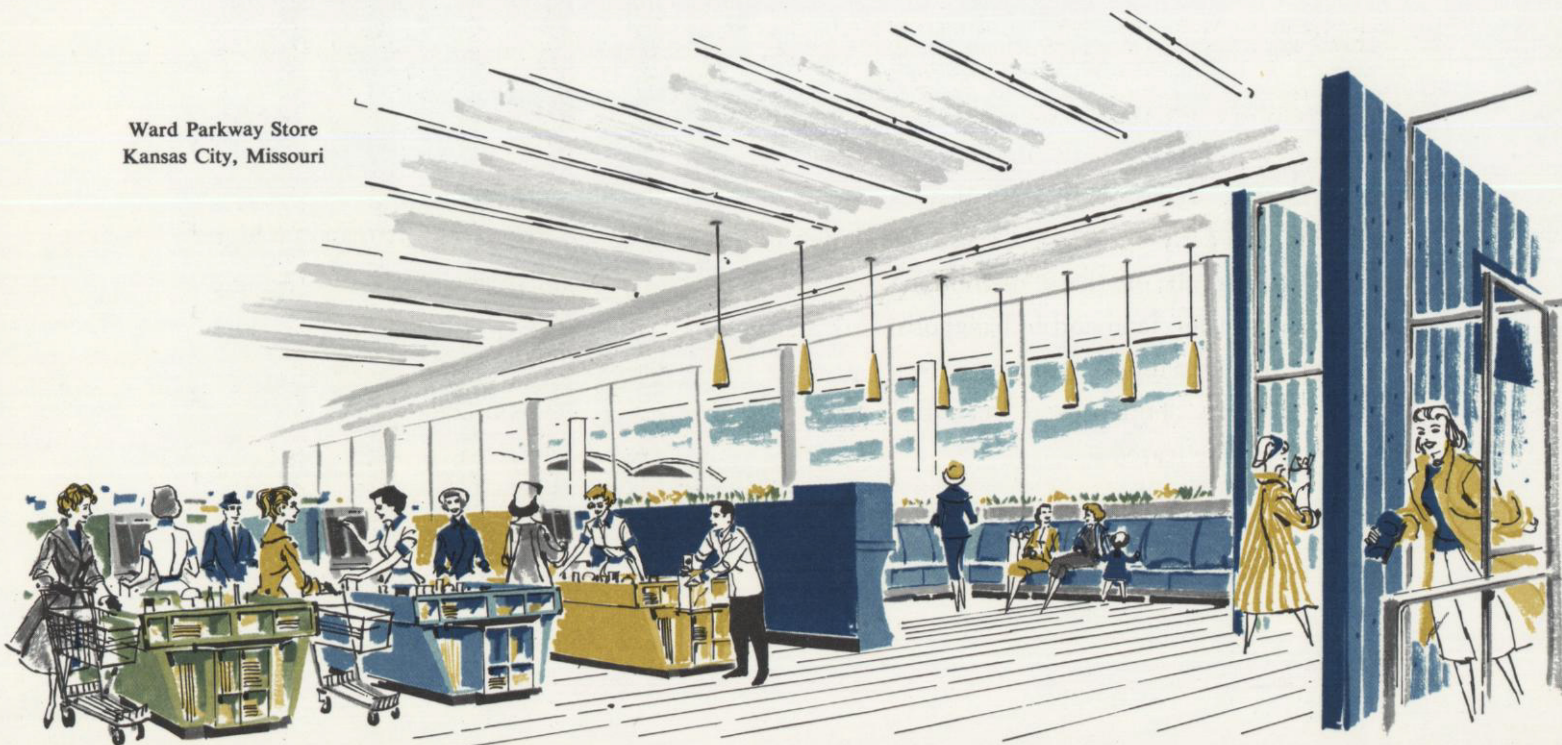
1959 saw a further increase in Kroger transportation operations. Over 45,000,000 miles were traveled by Kroger vehicles. This performance has been made possible by continuing expansion of the Kroger fleet to 1,071 tractors and 2,140 trailers. Capital expenditures for transportation equipment were \$3,496,359 in 1959.

Decentralization

The company's decentralization program continues to make gratifying progress. The divisions are growing in importance, operating more like local chains.

Decentralization is being extended to the stores. The average store, with its annual volume of \$1,357,885, represents a sizeable business in itself. Capable management at the store level is required to take advantage of local merchandising opportunities. Through our continuing recruiting and training programs the caliber of management has been greatly improved.

Ward Parkway Store
Kansas City, Missouri



Store managers are encouraged to exercise initiative in adapting the operation of their stores to the customers they serve and to develop merchandising programs in terms of their neighborhoods. They are assisted by specialists from the division office, especially in the field of perishables. They are authorized to meet local competitive situations. Incentive bonus plans and participation in the company profit sharing program develop a financial interest in the results they accomplish.

Community Responsibility

Kroger personnel at all levels are encouraged to demonstrate leadership in their neighborhoods—to accept responsibilities as good citizens in their communities.

Kroger store managers are active in local business and trade groups, service clubs and youth organizations. Some serve on city councils, school boards and in other municipal offices. Store managers have been national winners in the good citizenship contests conducted by the National Association of Food Chains.

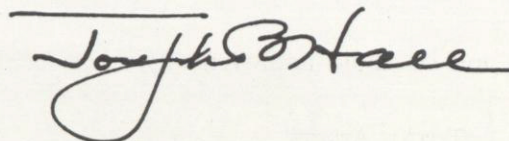
Kroger has provided capable leadership in United Appeal, Community Chest, Red Cross and other fund-raising drives. Twice in recent years successful United Appeal campaigns in the Cincinnati area have been headed by Kroger executives. Division Vice Presidents have successfully led campaigns in division cities. There are not many worthwhile causes in Kroger communities in which our people do not participate.

Financial aid to education is a growing need. Kroger contributes to associations of independent colleges throughout Kroger territory. Each year, 105 scholarships are awarded to outstanding high school graduates who are entering the fields of agriculture or home economics. More than 1,200 young men and women have been encouraged to enter college through this program.

The Year Ahead

1960 should be a good year for Kroger. Business activity is generally expected to remain at a high level. Food prices may be moderately lower during the early months. The modern stores and distribution centers, aggressive merchandising and the strong management team should continue to produce good results.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Joseph B. Hare". The signature is fluid and cursive, with a large, sweeping initial "J".

President

February 12, 1960.

The Kroger Co. • Consolidated Balance

ASSETS

	<u>Jan. 2, 1960</u>	<u>Dec. 27, 1958</u>
Cash	\$ 52,865,583	\$ 52,566,148
United States Government securities, at cost (approximates market)	6,784,970	—
Receivables	9,149,745	21,161,388
Merchandise inventories (Note 1)	118,862,668	116,628,932
Store and general supplies	6,217,118	5,564,294
Prepaid and miscellaneous assets	<u>3,748,483</u>	<u>2,125,793</u>
TOTAL CURRENT ASSETS	197,628,567	198,046,555
Investment in unconsolidated subsidiaries, at cost (Note 2)	2,643,948	2,643,948
Land, buildings and equipment, at cost or less	190,365,160	175,598,422
Less allowance for depreciation	(78,985,047)	(73,282,827)
Leaseholds and leasehold improvements, net	<u>34,590,369</u>	<u>28,189,213</u>
TOTAL ASSETS	\$346,242,997	\$331,195,311

Sheet • January 2, 1960 and December 27, 1958

LIABILITIES

	<u>Jan. 2, 1960</u>	<u>Dec. 27, 1958</u>
Accounts payable	\$ 57,130,791	\$ 63,311,532
Accrued expenses	34,687,007	28,961,158
Provision for federal taxes (Note 3).....	11,955,847	19,094,556
TOTAL CURRENT LIABILITIES.....	<u>103,773,645</u>	<u>111,367,246</u>
Long-term indebtedness (Note 4).....	57,329,608	54,455,814
Reserve for deferred federal taxes.....	7,730,000	4,510,000
Employees' benefit fund.....	3,948,658	2,288,658
CAPITAL		
Preferred capital stock, par \$100	35,300	35,300
Common capital stock, par \$1 (Note 5):		
Authorized: 18,000,000 shares		
Outstanding: 1959, 12,410,000 shares; 1958, 12,319,317 shares	55,597,004	54,460,741
Accumulated earnings (Note 4).....	117,828,782	104,077,552
TOTAL CAPITAL	<u>173,461,086</u>	<u>158,573,593</u>
TOTAL LIABILITIES & CAPITAL.....	<u>\$346,242,997</u>	<u>\$331,195,311</u>

Consolidated Statement of Income

Years Ended January 2, 1960 and December 27, 1958		
	1959	1958
Sales	\$1,911,902,467	\$1,776,175,147
Cost of sales.....	1,544,271,611	1,448,230,121
Operating and general expenses.....	<u>313,492,936</u>	<u>283,512,096</u>
Total.....	<u>\$1,857,764,547</u>	<u>\$1,731,742,217</u>
Income before federal taxes on income.....	54,137,920	44,432,930
Federal taxes on income.....	<u>28,621,000</u>	<u>22,803,000</u>
Net income	\$ 25,516,920	\$ 21,629,930

Consolidated Statement of Accumulated Earnings

Year Ended January 2, 1960		
Accumulated earnings—December 27, 1958.....		\$ 104,077,552
Net income for 1959.....	\$ 25,516,920	
Dividends.....	<u>11,765,690</u>	<u>13,751,230</u>
Accumulated earnings—January 2, 1960.....		\$ 117,828,782

Notes to Financial Statements

1. Merchandise inventories are valued at the lower of cost or market, and in part are on the Lifo basis.
2. All wholly-owned subsidiaries have been included in consolidation. The company's equity in the net assets of unconsolidated subsidiaries amounted to \$3,585,585 at January 2, 1960. No dividends were received from these subsidiaries in 1959. The company's equity in earnings of unconsolidated subsidiaries for 1959 amounted to \$490,507.
3. Provision for federal taxes as of January 2, 1960 is net of United States Government securities of \$7,866,965.
4. Long-term indebtedness:

3.1% notes maturing October 1, 1971; annual prepayments of \$700,000, without premiums, required beginning October 1, 1961.....	\$14,000,000
3 1/4% notes maturing June 1, 1963.....	20,000,000
3% to 4 1/2% notes maturing in two installments, 30% on September 25, 1961, and 70% on September 25, 1962.....	11,000,000
4 3/4% promissory notes, 70% maturing November 5, 1978 and 30% maturing March 2, 1979.....	10,000,000
Other	2,329,608
	\$57,329,608

Under certain of the loan agreements, payments of cash dividends are limited. At January 2, 1960, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to \$37,730,676.

5. Options to officers and executives to purchase 690,908 shares of Kroger common stock were in force at December 27, 1958. Option transactions during the year may be summarized as follows: granted 85,350 shares; exercised 90,683 shares; expired or cancelled 32,057 shares. Options to purchase 653,518 shares were in force at January 2, 1960. Shares available for option at the beginning and close of the year were 179,267 and 110,322, respectively. Options for 118,968 shares were exercisable at January 2, 1960.

Report of Certified Public Accountants

LYBRAND, ROSS BROS. & MONTGOMERY CERTIFIED PUBLIC ACCOUNTANTS

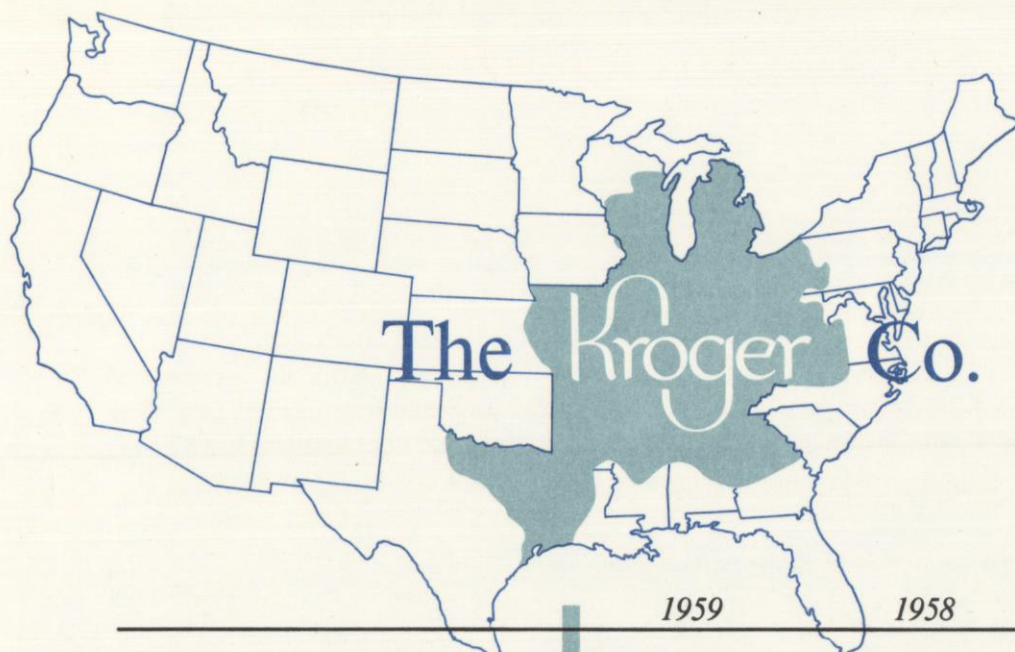
To the Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of January 2, 1960, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-three weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at January 2, 1960, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Cincinnati, Ohio
February 12, 1960

Lybrand, Ross Bros. & Montgomery



The Kroger Co.

• Ten Year

	1959	1958	1957	1956
<i>For the Year</i>				
SALES.....	\$1,911,902,467	\$1,776,175,147	\$1,674,123,593	\$1,492,552,233
NET INCOME BEFORE TAXES....	\$ 54,137,920	\$ 44,432,930	\$ 41,505,207	\$ 34,515,450
NET INCOME.....	\$ 25,516,920	\$ 21,629,930	\$ 20,635,207	\$ 17,071,250
NET INCOME PER SHARE (1).....	\$2.06	\$1.76	\$1.70	\$1.41
DIVIDENDS PER SHARE (2).....	\$.95	\$.72 ½	\$.66⅔(3)	\$.66⅔(3)
<i>At the Year End</i>				
CASH.....	\$ 52,865,583	\$ 52,566,148	\$ 42,927,467	\$ 41,518,152
MERCHANDISE INVENTORIES...	\$ 118,862,668	\$ 116,628,932	\$ 111,474,382	\$ 106,274,996
NET WORKING CAPITAL.....	\$ 93,854,922	\$ 86,679,309	\$ 73,136,938	\$ 71,945,596
NET FIXED ASSETS.....	\$ 145,970,482	\$ 130,504,808	\$ 108,866,641	\$ 95,528,379
ACCUMULATED EARNINGS.....	\$ 117,828,782	\$ 104,077,552	\$ 91,338,289	\$ 87,656,514
NET WORTH.....	\$ 173,461,086	\$ 158,573,593	\$ 143,730,410	\$ 130,159,964
NET WORTH PER SHARE (1).....	\$13.97	\$12.87	\$11.83	\$10.77
NUMBER OF SHAREOWNERS.....	34,972	28,514	26,583	26,621
NUMBER OF EMPLOYEES.....	40,157	40,500	39,389	36,807
NUMBER OF STORES.....	1,393	1,428	1,421	1,476
ANNUAL SALES PER STORE.....	\$ 1,357,885	\$ 1,257,914	\$ 1,157,006	\$ 982,589
TOTAL STORE AREA (Square Feet)	17,392,580	16,805,232	15,092,774	13,918,774

(1) Adjusted for 3 for 1 split in 1958, 4% common stock dividends in 1956 and 1957, and 2 for 1 split in 1950.

(2) Adjusted for 3 for 1 split in 1958 and 2 for 1 split in 1950.

(3) Plus 4% stock dividend.

Statistical Summary

1955	1954	1953	1952	1951	1950
\$1,219,474,812	\$1,108,694,168	\$1,058,608,651	\$1,051,849,935	\$997,086,223	\$861,242,642
\$ 27,994,575	\$ 27,326,912	\$ 29,309,664	\$ 27,935,387	\$ 21,710,540	\$ 24,574,542
\$ 14,368,292	\$ 14,912,912	\$ 12,528,664	\$ 12,110,087	\$ 12,657,940	\$ 13,087,542
\$1.20	\$1.24	\$1.05	\$1.02	\$1.06	\$1.10
\$.66 $\frac{2}{3}$	\$.66 $\frac{2}{3}$	\$.66 $\frac{2}{3}$	\$.63	\$.62	\$.63
\$ 40,696,076	\$ 34,627,962	\$ 41,792,719	\$ 40,078,625	\$ 30,128,288	\$ 25,869,452
\$ 95,112,775	\$ 84,667,841	\$ 81,196,446	\$ 77,143,349	\$ 79,170,757	\$ 72,223,385
\$ 79,180,095	\$ 67,522,366	\$ 68,707,575	\$ 65,884,745	\$ 61,528,850	\$ 49,918,283
\$ 79,616,588	\$ 59,575,135	\$ 50,451,043	\$ 47,843,817	\$ 47,087,347	\$ 38,829,770
\$ 85,163,541	\$ 78,200,902	\$ 70,670,362	\$ 65,501,630	\$ 60,373,344	\$ 54,513,661
\$ 119,910,406	\$ 112,585,204	\$ 104,646,321	\$ 99,216,265	\$ 94,090,179	\$ 88,230,496
\$ 9.97	\$ 9.39	\$ 8.76	\$ 8.32	\$ 7.89	\$ 7.40
26,596	25,501	25,914	26,088	26,254	26,144
33,705	30,320	29,105	28,396	26,864	25,775
1,587	1,678	1,810	1,891	1,978	2,054
\$ 740,871	\$ 634,991	\$ 570,678	\$ 544,717	\$ 493,119	\$ 406,822
12,750,326	11,318,339	11,059,602	10,810,237	10,613,701	10,217,453



THE KROGER CO. / CINCINNATI 1, OHIO